

**Farwell Area Schools
Farwell, Michigan**

**Annual Financial Statements
and
Auditors' Report**

June 30, 2008

Table of Contents

<u>Section</u>	<u>Page</u>
1 Members of the Board of Education and Administration	1 - 1
2 Independent Auditors' Report	2 - 1
3 Management's Discussion and Analysis	3 - 1
4 Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets	4 - 1
Statement of Activities	4 - 3
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4 - 4
Reconciliation of the Balance Sheet of	
Governmental Funds to the Statement of Net Assets	4 - 5
Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 6
Reconciliation of the Statement of Revenues, Expenditures and	
Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 7
Fiduciary Funds	
Statement of Assets and Liabilities	4 - 8
Notes to Financial Statements	4 - 9
5 Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	5 - 1

SectionPage

6

Other Supplemental Information

Nonmajor Governmental Funds

Combining Balance Sheet

6 - 1

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

6 - 2

General Fund

Balance Sheet

6 - 3

Schedule of Revenues

6 - 4

Schedule of Expenditures

6 - 5

Fiduciary Funds

Statement of Changes in Amounts Due to Student Groups

6 - 11

Schedule of Outstanding Bonded Indebtedness – 2005 Issue

6 - 14

Farwell Area Schools
Members of the Board of Education and Administration
June 30, 2008

Members of the Board of Education

Michael Jenkins	President
Penny Parsons	Vice President
Alan Reiss	Secretary
Irene Hanner	Treasurer
David Kedrowski	Trustee
Letha Raymond	Trustee
Bernice Marhofer	Trustee

Administration

David Peterson	Superintendent
Carl Seiter	Business Manager



6018 Eastman Avenue
Midland, MI 48640
Phone (989) 631-6060 / (800) 701-3574
Fax (989) 631-4288

Independent Auditors' Report

To the Board of Education
Farwell Area Schools
Farwell, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Farwell Area Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Farwell Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Farwell Area Schools as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2008, on our consideration of the Farwell Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Farwell Area Schools' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

August 14, 2008
Midland, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farwell Area Schools

Management's Discussion and Analysis

Year Ended June 30, 2008

The following discussion and analysis of the Farwell Area Schools' financial performance provides an overall review of the District's financial activities and position for the fiscal year ended June 30, 2008. Readers should also review the financial statements, the notes to the financial statements and the supplementary information to enhance their understanding of the District's financial performance.

Overview of Financial Statements

The audit consists of four parts: management's discussion and analysis (this section), the basic financial statements, the required supplementary information and other supplemental information. Generally Accepted Accounting Principles (GAAP) requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

District Wide Financial Statements:

The district wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district wide financial statements.

Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities that are to be paid with current financial resources are recognized. These statements focus on individual parts of the district rather than the district as a whole.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds. These funds include Debt and School Service Funds that are comprised of Food Service and Athletics and various Agency Accounts.

SUMMARY OF NET ASSETS:

The following summarizes the net assets:

	Year Ended June 30, 2008	Year Ended June 30, 2007
Assets		
Current assets	\$5,363,918	\$6,848,448
Capital assets-net of accumulated depreciation	15,616,371	14,909,038
Total capital assets	15,616,371	14,909,038
Total assets	20,980,289	21,757,486
Liabilities		
Current liabilities	3,490,966	3,809,790
Long-term liabilities	10,489,705	11,106,957
Total liabilities	13,980,671	14,916,747
Net assets		
Investment in capital assets net of related debt	5,653,426	5,192,302
Restricted for capital projects	425,570	371,096
Restricted for debt service	264,042	279,895
Unreserved	656,580	997,446
Total net assets	\$ 6,999,618	\$ 6,840,739

Farwell Area Schools

Management's Discussion and Analysis

Year Ended June 30, 2008

Analysis of Financial Position:

During the fiscal year ended June 30, 2008, the district's net assets increased by \$158,878. Significant factors are discussed below:

A. Net Changes in Fund Balances

The district's governmental fund balances decreased by \$1,068,084 this fiscal year. The most vital to our school district is the General Fund. Expenses from General Fund operations exceeded revenues by \$207,166 for the fiscal year ended June 30, 2008. See the section entitled Results of Operations, below, for further discussion on General Fund operations.

	Year Ended June 30,	
	2008	2007
General fund	\$ (207,166)	\$ 99,853
Food service fund	(33,321)	(31,632)
Athletic fund	23,505	(5,558)
Debt retirement fund	(15,853)	43,695
Construction fund	(777,060)	(6,701,036)
Capital projects fund	(58,189)	199,533
Total change in governmental fund balances	<u>\$ (1,068,084)</u>	<u>\$ (6,395,145)</u>

The decrease in the General Fund reserves is the result of revenues increasing at a rate (less than 1% increase in total revenue from 2006/07 to 2007/08) far less than the rate of expenses (3.38% increase over the same period). The state's foundation grant increased in 2007/08 (\$7,204 from \$7,085). Based on a pupil count of 1,542.69, the \$119 increase in the foundation grant resulted in \$183,580 of new funds. Total expenses for 2007/08 increased by \$419,593. Health insurance costs increased. The monthly

premium for the teachers (Farwell's largest bargaining unit) increased 5.06% for Pak A benefits. As Farwell Area Schools completes a 2005 Bond project, there are many unforeseen costs that impact the General Fund. Operation and Maintenance increased \$60,240 in 2007/08. Transportation fuel costs alone increased \$40,816 in 2007/08.

On a positive note, with Michigan's economy, student population trends have been on the steady decline. Farwell Area Schools has maintained our student count for the last three years without the sharp declines that have been experienced in neighboring school districts.

Food Service fund balance decreased \$33,321. Farwell Area Schools continues to operate our food service program very efficiently. Chartwells management service has performed very well. For 2007/08, the decrease in fund balance was due to sharp increases in food costs. Food expenses increased \$16,937. Labor and benefits increased \$13,926 in 2007/08.

Athletic fund balance was increased by \$23,505 this year. The general fund provides most of the funding for athletics. The amount of funding support from the general fund increased from \$200,000 in 2006/07 to \$225,000 in 2007/08 largely due to the bond project and the requirement for new athletic equipment.

Debt Retirement fund balance decreased by \$15,853 based on the third year levies on the Farwell Area Schools May 2005 bond. Fund balance is required due to possible board of review and Tax Tribunal decisions that result in mid-year payments. Current debt levy for 2007/08 was 2.40 mills on all properties.

**Farwell Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008**

The Construction Fund decrease reflects the project will be slowing down. With a fund balance of \$112,663, the construction is approximately 99% complete.

The Capital Projects fund balance decreased by \$58,189. In 2007/08 several projects were completed. Purchase of a property very close to campus; Middle School roof project; Paving projects; entering into an agreement with the Village of Farwell to improve Ohio and Michigan streets around the school. All of these projects totaled \$140,086.

B. Debt, Principal Payments

The district made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities by \$590,000. In June 2005 the District issued \$11,420,000 general obligation bond. The proceeds are being used for additions and refurbishing of all school buildings.

At June 30, 2008, the District had \$9,955,000 in general obligation bonds outstanding for capital projects and \$128,678 outstanding for Durant Resolution bonds. During the 2007/08 fiscal year, the District levied a debt millage of 2.4 mills that generated revenue of \$978,076 and was based on the taxable value of all properties within the District. The revenue raised by the debt levy is used to pay maturities on the general obligation bonds, whereas the Durant Resolution bonds are self-liquidating bonds funded completely by the State of Michigan.

C. Net Investment in Capital Assets

During 2007/08, the District's net investment in capital assets increased by \$707,333. This can be summarized as follows:

	Balance June 30 2007	Increases	Decreases	Balance June 30 2008
Capital assets	\$ 19,896,521	\$ 986,898	\$ (84,298)	\$ 20,799,121
Accumulated depreciation	(4,987,483)	(279,565)	84,298	(5,182,750)
Net investment in capital assets	<u>\$ 14,909,038</u>	<u>\$ 707,333</u>	<u>\$ -</u>	<u>\$ 15,616,371</u>

D. Other changes in Net Assets

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	\$ (20,297)
Change in accrued interest on bonds	<u>(522)</u>
Total other changes in net assets	<u>\$ (20,819)</u>

**Farwell Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008**

**Results of Operations:
Revenues:**

	Year Ended June 30,	
	2008	2007
General Revenues:		
Property taxes levied for general purposes	\$ 4,084,210	\$ 3,843,873
Property taxes levied for debt service	978,076	998,897
State aid- unrestricted	6,786,336	6,846,735
Investment earnings	107,426	294,043
Other	117,570	119,623
Total general revenues	<u>12,073,618</u>	<u>12,103,171</u>
Operating Grants and Contributions		
Instruction	938,342	980,389
Supporting services	478,288	601,202
Food service	<u>472,677</u>	<u>471,750</u>
Total operating grants	<u>1,889,307</u>	<u>2,053,341</u>
Capital Grants and Contributions		
Supporting services	<u>-</u>	<u>90,813</u>
Charges for Services		
Supporting services	15,577	23,009
Food service	229,279	200,302
Athletics	<u>30,093</u>	<u>19,439</u>
Total charges for services	<u>274,949</u>	<u>242,750</u>
Total Revenues	<u>\$ 14,237,874</u>	<u>\$ 14,490,075</u>

Expenses:

	Year Ended June 30,	
	2008	2007
Instruction	\$ 8,804,889	\$ 8,630,505
Supporting services	3,905,842	3,656,686
Food services	716,630	686,854
Athletics	234,675	224,515
Community services	17,129	16,809
Interest on long- term debt	<u>399,831</u>	<u>421,798</u>
Total Expenses	<u>14,078,996</u>	<u>13,637,167</u>
Change in net assets	158,878	852,908
Net assets - beginning	<u>6,840,740</u>	<u>5,987,832</u>
Net assets - ending	<u>\$ 6,999,618</u>	<u>\$ 6,840,740</u>

Revenues:

I. State of Michigan Unrestricted Aid (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined by the following:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment – Blended at 75% of current year's fall count and 25% of prior year's winter count.
- c. The district's non-homestead tax levy based on 18 mills.

Farwell Area Schools

Management's Discussion and Analysis

Year Ended June 30, 2008

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Farwell Area Schools foundation allowance for 2007/08 was \$7,204 per pupil. This represents an increase of 1.7% as compared to the 2006/07 allocation of \$7,085 per student.

Student Enrollment:

The blended student count is based on 25 percent of Farwell's February 2007 count of 1,529.83 and 75 percent of the September 2007 count of 1,546.97. This formula reveals a blended count of 1,542.69 for Farwell Area Schools during the 2007/2008 fiscal year. Farwell Area School's blended student count for the last five years is detailed below.

<u>Fiscal Year</u>	<u>Blended Student Count</u>
2007/2008	1,542.69
2006/2007	1,534.60
2005/2006	1,538.62
2004/2005	1,575.46
2003/2004	1,631.43

Blended student enrollment is expected to decrease 7.10 students in the 2008/09 fiscal year, which will reduce revenue by approximately \$51,944.

II. Property Taxes levied for General Operations and Debt Service

A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Farwell Area Schools levied 18.00 mills against the non-homestead property in the district for general fund operations. Under Michigan law, the tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI or five

percent whichever is less. This is more commonly referred to as the Headlee amendment. Farwell passed a Headlee Override vote in May 2007 for the 2007 levy. Farwell also levied 2.4 mills on all property for principal and interest payments on the 2005 bond issue.

<u>Fiscal Year</u>	<u>Non- Homestead Taxable Values</u>	<u>All Property Taxable Values</u>
2007/2008	\$227,518,732	\$181,363,067
2006/2007	215,552,155	171,240,894
2005/2006	199,816,136	361,685,600
2004/2005	186,964,582	339,419,152
2003/2004	178,846,339	321,660,615

III. Operating Grants

The District's federal funds, when combined with Food Service, decreased by \$138,256 over last fiscal year. This decrease in federal funds is misleading. Farwell Area Schools experienced a decrease in the amount of federal funds due to not spending as much during 2007/08 and having larger carryover balances in 2006/07. Even though the awarded amounts of federal grants did not change a great deal, the amount spent during 2007/08 was less due to only funding one Class Size Reduction teacher with Title II funds. Also, a counselor position that was 50% funded with Title I funds in 06/07 was eliminated for 07/08. The amount of federal revenue is recognized based on the amount of funds spent. So, if your spending goes down, the revenue will be down as well. Farwell Area Schools is anticipating federal grants to remain stable for 2008/09.

IV. Charges for Services

Food Service fund experienced a slight increase in revenue collected for meals during 2007/08. This increase, \$927, can be attributed to the continued growth in student participation in our lunch program.

Farwell Area Schools

Management's Discussion and Analysis

Year Ended June 30, 2008

The Athletic Fund experienced a increase in gate revenue of \$10,654 during 2007/08. The District's gate revenues can fluctuate based on the success of our athletic programs. Farwell, with the passage of our recent bond issue, has experienced a surge in attendance at our athletic events.

Expenses:

Expenses totaled \$14,078,996. Farwell Area Schools spent \$8,804,889 during 2007/08 on instruction. This represents a 2% increase in spending on instruction. The slight increase in spending can be attributed to the combination of increased payroll costs and staff reductions. Even though the number of students has not declined, the pressure of not enough revenue from the state has forced school districts to reduce costs. In order for a service organization to cut costs it means the reduction of staff. That explains the only slight increase in expenditures on instruction. The amount of expenditures on instruction also represents 62.54% of all district-wide expenses. This compares to 63.29% in 2006/07.

General Fund Budget vs. Actual Revenues & Expenditures

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

Typically, the district amends the budget twice per fiscal year. Once in the fall to incorporate the staffing changes and student count numbers and also a second time, usually in March or April, after three quarters of the fiscal year has been completed. During 2007/08 the District amended the budget only once. The original budget was revised in February 2008. With the budget being accurate after the

third quarter of the fiscal year, the need for a final amendment was eliminated.

General fund revenues

Total revenues original budget	\$ 12,070,637
Total revenues final budget	12,646,500
Total revenues actual	12,628,570

The district's actual general fund revenues were less than the final budget by \$17,930 a variance on overall revenues of less than 0.14%.

Some significant factors that affected the revenues in 2007/08 include:

- The September 2007 student count revealed 36.58 students higher than the projection of 1,510.39. This meant the blended student count increased by 27.44 FTEs or \$197,678.
- The State of Michigan increased the foundation to \$7,204 per pupil. The budget revision in February 2008 reflected the \$7,108 per pupil. This meant an additional \$148,509.
- Federal Grants were not entirely received and expended. Carryover amounts for federal grants means that there is automatically a budget variance.

**Farwell Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008**

General Fund Expenditures

Total expenditures original budget	\$ 12,392,720
Total expenditures final budget	12,942,026
Total expenditures actual	12,835,736

The District's actual general fund expenditures were less than the final budget by \$106,290 a variance of 0.84%.

Some significant factors that impacted the expenditures side of the budget include:

- With the State of Michigan and school funding being in the state of uncertainty as it is, Farwell Area School's staff has conditioned themselves. Requests for supplies and materials are made only when necessary. Spending is held to a minimum wherever possible.
- Custodial staffing and operational costs were significantly less during 2007/08. Medical leave, and employing only school year custodial staff allows the District to reduce operational costs. Also, many of the line items for supplies and equipment were under utilized due to our bond construction. Many items typically in need of repair, are new and not eating up operational funds. The Operation and Maintenance function code was under spent by \$100,394.
- At Risk funds were only 73% spent in 2007/08. That represents a budget variance of \$144,643.
- The remainder of the budget variance was due to several budget line items in many different function codes that were under budget.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late September, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated.

Actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. "Pro rata" reductions were enacted in the past. Similar reductions remain a possibility for 2008/09 if state revenues fall short of projections. Currently, the legislature has passed a spending package for the state's fiscal year beginning October 2008. The foundation grant for 2008/09 is set at \$7,316. The 2008/09 original budget reflects an anticipated \$7,279 per pupil foundation grant. That is a "pro-rata" of \$37 per pupil.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the district's finances. If you have questions about this report or would like additional information, contact the Business Office, Farwell Area Schools.

BASIC FINANCIAL STATEMENTS

Farwell Area Schools
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash	\$ 3,099,476
Taxes receivable	565,118
Accounts receivable	28,066
Due from other governmental units	1,596,324
Other assets	74,934
Capital assets not being depreciated	12,295,514
Capital assets - net of accumulated depreciation	<u>3,320,857</u>
 Total assets	 <u>20,980,289</u>

See Accompanying Notes to Financial Statements

Farwell Area Schools
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	275,430
State aid anticipation note payable	2,000,000
Due to agency fund activities	3,904
Payroll deductions and withholdings	5,811
Accrued expenditures	150,227
Accrued salaries payable	866,875
Deferred revenue	188,719
Noncurrent liabilities	
Due within one year	662,128
Due in more than one year	<u>9,827,577</u>
Total liabilities	<u>13,980,671</u>
Net Assets	
Invested in capital assets, net of related debt	5,653,426
Restricted for:	
Debt service	264,042
Capital projects	425,570
Unrestricted	<u>656,580</u>
Total net assets	<u><u>\$ 6,999,618</u></u>

Farwell Area Schools
Statement of Activities
For the Year Ended June 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
Instruction	\$ 8,804,889	\$ -	\$ 938,342	\$ -	\$ (7,866,547)
Supporting services	3,905,842	15,577	478,288	-	(3,411,977)
Food services	716,630	229,279	472,677	-	(14,674)
Athletic activities	234,675	30,093	-	-	(204,582)
Community services	17,129	-	-	-	(17,129)
Interest on long-term debt	399,831	-	-	-	(399,831)
Total governmental activities	<u>\$ 14,078,996</u>	<u>\$ 274,949</u>	<u>\$ 1,889,307</u>	<u>\$ -</u>	<u>(11,914,740)</u>
General revenues					
Property taxes, levied for general purposes					4,084,210
Property taxes, levied for debt service					978,076
State aid - unrestricted					6,786,336
Interest and investment earnings					107,426
Other					<u>117,570</u>
Total general revenues					<u>12,073,618</u>
Change in net assets					158,878
Net assets - beginning					<u>6,840,740</u>
Net assets - ending					<u>\$ 6,999,618</u>

See Accompanying Notes to Financial Statements

Farwell Area Schools
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 2,741,125	\$ 358,351	\$ 3,099,476
Taxes receivable	415,105	150,013	565,118
Accounts receivable	14,997	13,069	28,066
Due from other funds	114,303	282,181	396,484
Due from other governmental units	1,482,073	114,251	1,596,324
Total assets	<u>\$ 4,767,603</u>	<u>\$ 917,865</u>	<u>\$ 5,685,468</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 234,029	\$ 41,401	\$ 275,430
State aid anticipation note payable	2,000,000	-	2,000,000
Due to other funds	282,181	114,303	396,484
Due to agency fund activities	3,904	-	3,904
Payroll deductions and withholdings	5,811	-	5,811
Accrued expenditures	70,621	-	70,621
Accrued salaries payable	866,875	-	866,875
Deferred revenue	188,719	-	188,719
Total liabilities	<u>3,652,140</u>	<u>155,704</u>	<u>3,807,844</u>
Fund Balance			
Reserved for debt service	-	264,042	264,042
Reserved for capital projects	-	425,570	425,570
Other undesignated	1,115,463	72,549	1,188,012
Total fund balance	<u>1,115,463</u>	<u>762,161</u>	<u>1,877,624</u>
Total liabilities and fund balance	<u>\$ 4,767,603</u>	<u>\$ 917,865</u>	<u>\$ 5,685,468</u>

See Accompanying Notes to Financial Statements

Farwell Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Total fund balances for governmental funds	\$ 1,877,624
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	12,295,514
Capital assets - net of accumulated depreciation	3,320,857
Other long-term assets are not deferred in the governmental funds.	74,934
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(79,606)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(323,148)
Bonds payable	<u>(10,166,557)</u>
Net assets of governmental activities	<u><u>\$ 6,999,618</u></u>

Farwell Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 4,378,604	\$ 1,217,546	\$ 5,596,150
State sources	7,713,413	56,894	7,770,307
Federal sources	489,553	472,677	962,230
Total revenues	<u>12,581,570</u>	<u>1,747,117</u>	<u>14,328,687</u>
Expenditures			
Current			
Education			
Instruction	8,148,386	-	8,148,386
Supporting services	3,808,528	-	3,808,528
Food services	-	716,630	716,630
Athletic activities	-	219,458	219,458
Community services	17,129	-	17,129
Intergovernmental payments	282,660	-	282,660
Capital outlay	271,533	936,183	1,207,716
Debt service			
Principal	-	590,000	590,000
Interest and other expenditures	-	406,264	406,264
Total expenditures	<u>12,528,236</u>	<u>2,868,535</u>	<u>15,396,771</u>
Excess (deficiency) of revenues over expenditures	<u>53,334</u>	<u>(1,121,418)</u>	<u>(1,068,084)</u>
Other Financing Sources (Uses)			
Transfers in	47,000	307,500	354,500
Transfers out	<u>(307,500)</u>	<u>(47,000)</u>	<u>(354,500)</u>
Total other financing sources (uses)	<u>(260,500)</u>	<u>260,500</u>	<u>-</u>
Net change in fund balance	(207,166)	(860,918)	(1,068,084)
Fund balance - beginning	<u>1,322,629</u>	<u>1,623,079</u>	<u>2,945,708</u>
Fund balance - ending	<u>\$ 1,115,463</u>	<u>\$ 762,161</u>	<u>\$ 1,877,624</u>

See Accompanying Notes to Financial Statements

Farwell Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds \$ (1,068,084)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as
revenue in the funds.

Capital grants (90,813)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of
those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (279,565)

Capital outlay 986,898

Expenses are recorded when incurred in the statement of activities.

Interest (522)

Compensated absences 20,297

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute
to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does
not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces
the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts
and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Repayments of long-term debt 590,000

Amortization of premiums 6,955

Amortization bond issuance costs (6,288)

Change in net assets of governmental activities **\$ 158,878**

Farwell Area Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2008

	<u>Agency Funds</u>
Assets	
Cash	\$ 121,157
Due from other funds	<u>3,904</u>
 Total assets	 <u><u>\$ 125,061</u></u>
 Liabilities	
Due to student groups	<u><u>\$ 125,061</u></u>

See Accompanying Notes to Financial Statements

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Farwell Area Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements, the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Construction Fund – The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Athletic Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Fund – Debt Service Fund is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Fund – Capital Project Fund is used to record revenue and disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivable are shown net of an allowance for uncollectible amounts.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2008, the rates are as follows per \$1,000 of assessed value:

General Fund	
Nonhomestead	18.00000
Debt Service Funds	
Homestead	2.40000
Nonhomestead	2.40000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. All of the School District's tax roll lies within Clare and Isabella Counties.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County's of Clare and Isabella and remitted to the School District by May 15.

Inventories and Prepaid Items – The District uses the purchase method to account for supplies and materials. Under the purchase method, supplies and materials are recognized as expenditures when purchased. Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend

asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Compensated Absences – Most employees earn sick days, and most non-teacher personnel earn vacation days. Employees may accumulate 120 sick days. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days and vacation days to a maximum number of days and at a rate determined by their job category.

The liability for compensated absences is measured using the Termination Method as described in GASB Statement 16. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the

new rules will cause district-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 6,330,697	\$ 6,415,346	\$ 84,649
Pupil	123,705	130,217	6,512
Instructional staff	200,521	211,451	10,930
School administration	761,971	764,579	2,608
Pupil transportation services	755,964	806,227	50,263
Central	114,102	131,658	17,556
Intergovernmental payments	278,800	282,660	3,860

NOTE 3 - DEPOSITS AND INVESTMENTS

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	<u>\$ 3,099,476</u>	<u>\$ 121,157</u>	<u>\$ 3,220,633</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 3,220,633</u>
--	---------------------

Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or District obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits and investments are in accordance with statutory authority.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$3,498,702 of the District's bank balance of \$3,721,956 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

NOTE 4 - CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 388,186	\$ 16,661	\$ -	\$ 404,847
Construction in progress	<u>11,097,296</u>	<u>793,371</u>	<u>-</u>	<u>11,890,667</u>
Total capital assets not being depreciated	<u>11,485,482</u>	<u>810,032</u>	<u>-</u>	<u>12,295,514</u>
Capital assets being depreciated				
Buildings and additions	7,002,078	-	-	7,002,078
Equipment and furniture	157,981	41,246	-	199,227
Buses and other vehicles	<u>1,250,980</u>	<u>135,620</u>	<u>(84,298)</u>	<u>1,302,302</u>
Total capital assets being depreciated	<u>8,411,039</u>	<u>176,866</u>	<u>(84,298)</u>	<u>8,503,607</u>
Less accumulated depreciation for				
Buildings and additions	(3,847,902)	(169,930)	-	(4,017,832)
Equipment and furniture	(102,049)	(18,635)	-	(120,684)
Buses and other vehicles	<u>(1,037,532)</u>	<u>(91,000)</u>	<u>84,298</u>	<u>(1,044,234)</u>
Total accumulated depreciation	<u>(4,987,483)</u>	<u>(279,565)</u>	<u>84,298</u>	<u>(5,182,750)</u>
Net capital assets being depreciated	<u>3,423,556</u>	<u>(102,699)</u>	<u>-</u>	<u>3,320,857</u>
Net capital assets	<u>\$ 14,909,038</u>	<u>\$ 707,333</u>	<u>\$ -</u>	<u>\$ 15,616,371</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities

Instruction	\$ 153,025
Support services	111,323
Athletic activities	<u>15,217</u>
Total governmental activities	<u>\$ 279,565</u>

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Project			
School buildings and site improvements	<u>\$ 12,314,248</u>	<u>\$ 240,378</u>	<u>\$ 2,145</u>

Contracts payable at year end represent actual contractor billings of \$2,145 and are recorded as a Capital Projects Fund liability. All projects are expected to be complete by December 31, 2008.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Athletics	General Fund	\$ 23,129
Capital Projects Fund	General Fund	63,743
General Fund	Debt Service Fund	3
Debt Service Fund	General Fund	225
Food Service	General Fund	27,206
General Fund	Capital Projects Fund	220,955
General Fund	Food Service	61,223
		<u>\$ 396,484</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Other Governmental Funds	Total
Transfers in			
General Fund	\$ -	\$ 47,000	\$ 47,000
Other governmental funds	<u>307,500</u>	<u>-</u>	<u>307,500</u>
	<u>\$ 307,500</u>	<u>\$ 47,000</u>	<u>\$ 354,500</u>

These transfers were made to cover the costs of School District programs that were in excess of revenues generated from those activities.

NOTE 6 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>	<u>Unavailable</u>
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 188,719</u>	<u>\$ -</u>

NOTE 7 - LEASES

Operating Leases

The District leases space for an alternative education classroom, and also leases some equipment on one-year agreements that are renewed annually. Payments under these operating leases for the year ended June 30, 2008 amounted to \$12,000.

The District also leases copy machines under a non-cancelable operating lease agreement. Lease expenses for the year ended June 30, 2008 amounted to \$13,630.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

Future minimum lease payments are as follows:

Year ending June 30,	
2009	\$ <u>444</u>

NOTE 7 - STATE AID ANTICIPATION NOTE

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ <u>2,250,000</u>	\$ <u>2,000,000</u>	\$ <u>2,250,000</u>	\$ <u>2,000,000</u>

NOTE 8 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 10,545,000	\$ -	\$ 590,000	\$ 9,955,000	\$ 650,000
Other bonds	128,678	-	-	128,678	12,128
Compensated absences	343,445	-	20,297	323,148	-
Premium on bonds	89,834	-	6,955	82,879	-
Deferred issuance costs	(81,222)	-	(6,288)	(74,934)	-
Total	\$ 11,025,735	\$ -	\$ 610,964	\$ 10,414,771	\$ 662,128

General obligation bonds payable at year end, consists of the following:

\$11,420,000 serial bond due in annual installments of \$650,000 to \$1,025,000 through May 1, 2020, interest at 3.25% to 5.00%	\$ <u>9,955,000</u>
---	---------------------

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2009	\$ 650,000	\$ 376,500	\$ 1,026,500
2010	695,000	354,644	1,049,644
2011	720,000	330,750	1,050,750
2012	750,000	305,025	1,055,025
2013	775,000	277,369	1,052,369
2014-2018	4,360,000	1,069,263	5,429,263
2019-2020	2,005,000	205,825	2,210,825
Total	\$ 9,955,000	\$ 2,919,376	\$ 12,874,376

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of to pay this debt.

Farwell Area Schools
Notes to Financial Statements
June 30, 2008

Future debt and interest will be payable from future tax levies.
 Other bonds consist of the following:

\$217,928 Durant Refunding serial bonds due in annual
 installments through May 15, 2013; interest 4.76% due annually \$ 128,678

These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2009	\$ 12,128	\$ 3,176	\$ 15,304
2010	12,705	2,598	15,303
2011	13,310	1,993	15,303
2012	75,927	26,895	102,822
2013	<u>14,608</u>	<u>696</u>	<u>15,304</u>
Total	<u>\$ 128,678</u>	<u>\$ 35,358</u>	<u>\$ 164,036</u>

Compensated Absences

Accrued compensated absences at year end, consists of \$323,148 in accrued vacation hours and sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by vacation and sick time earned for the year.

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

Farwell Area Schools

Notes to Financial Statements

June 30, 2008

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS funding for the three-year period beginning July 1, 2005 through June 30, 2008.

	2008	2007	2006
Funding percentage range	16.72-17.74%	16.34-17.74%	14.87-16.34%
Total payroll	7,271,732	7,391,809	7,801,018
Total covered payroll	7,011,371	6,894,983	7,231,328
School contributions	1,104,552	1,203,042	1,164,965
Employee MIP contributions	230,591	228,369	244,763
Portion of school contribution covering health, dental and vision benefits	39%	37%	40%

Trend Information

Ten-year historical trend information is presented in the September 30, 2007, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2006, the latest date for which information is available, approximates \$ 49.1 billion and \$ 43.0 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPERS was less than 1% for the year ended September 30, 2007.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2007, statewide expenditures of \$654 million were recognized for post-retirement health care, dental and vision. This represented approximately 18% of the total expenditures of the Michigan Public School Employees Retirement System.

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2008.

REQUIRED SUPPLEMENTAL INFORMATION

Farwell Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local sources	\$ 4,307,270	\$ 4,378,269	\$ 4,378,604	\$ 335
State sources	7,199,002	7,651,175	7,713,413	62,238
Federal sources	517,365	570,056	489,553	(80,503)
Total revenues	<u>12,023,637</u>	<u>12,599,500</u>	<u>12,581,570</u>	<u>(17,930)</u>
Expenditures				
Instruction				
Basic programs	6,207,369	6,330,697	6,415,346	84,649
Added needs	1,818,253	1,882,813	1,733,040	(149,773)
Supporting services				
Pupil	117,349	123,705	130,217	6,512
Instructional staff	106,575	200,521	211,451	10,930
General administration	281,837	282,541	264,947	(17,594)
School administration	764,113	761,971	764,579	2,608
Business	370,380	365,457	363,089	(2,368)
Operations and maintenance	1,077,621	1,236,754	1,136,360	(100,394)
Pupil transportation services	757,974	755,964	806,227	50,263
Central	117,963	114,102	131,658	17,556
Community services	20,296	20,296	17,129	(3,167)
Intergovernmental payments	278,800	278,800	282,660	3,860
Capital outlay	201,690	280,905	271,533	(9,372)
Total expenditures	<u>12,120,220</u>	<u>12,634,526</u>	<u>12,528,236</u>	<u>(106,290)</u>
Excess (deficiency) of revenues over expenditures	<u>(96,583)</u>	<u>(35,026)</u>	<u>53,334</u>	<u>88,360</u>

Farwell Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Other Financing Sources (Uses)				
Transfers in	47,000	47,000	47,000	-
Transfers out	<u>(272,500)</u>	<u>(307,500)</u>	<u>(307,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(225,500)</u>	<u>(260,500)</u>	<u>(260,500)</u>	<u>-</u>
Net change in fund balance	(322,083)	(295,526)	(207,166)	88,360
Fund balance - beginning	<u>1,322,629</u>	<u>1,322,629</u>	<u>1,322,629</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,000,546</u>	<u>\$ 1,027,103</u>	<u>\$ 1,115,463</u>	<u>\$ 88,360</u>

OTHER SUPPLEMENTAL INFORMATION

Farwell Area Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>2005 Issue</u>			
Assets						
Cash	\$ 3,909	\$ 47,070	\$ -	\$ 192,774	\$ 114,598	\$ 358,351
Taxes receivable	-	-	150,013	-	-	150,013
Accounts receivable	12,859	-	-	-	210	13,069
Due from other funds	61,223	-	3	220,955	-	282,181
Due from other governmental units	-	-	114,251	-	-	114,251
	<u>-</u>	<u>-</u>	<u>114,251</u>	<u>-</u>	<u>-</u>	<u>114,251</u>
Total assets	<u>\$ 77,991</u>	<u>\$ 47,070</u>	<u>\$ 264,267</u>	<u>\$ 413,729</u>	<u>\$ 114,808</u>	<u>\$ 917,865</u>
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ 2,080	\$ 97	\$ -	\$ 37,079	\$ 2,145	\$ 41,401
Due to other funds	27,206	23,129	225	63,743	-	114,303
	<u>29,286</u>	<u>23,226</u>	<u>225</u>	<u>100,822</u>	<u>2,145</u>	<u>155,704</u>
Total liabilities	<u>29,286</u>	<u>23,226</u>	<u>225</u>	<u>100,822</u>	<u>2,145</u>	<u>155,704</u>
Fund Balance						
Reserved for debt service	-	-	264,042	-	-	264,042
Reserved for capital projects				312,907	112,663	425,570
Other undesignated	48,705	23,844	-	-	-	72,549
	<u>48,705</u>	<u>23,844</u>	<u>264,042</u>	<u>312,907</u>	<u>112,663</u>	<u>762,161</u>
Total fund balance	<u>48,705</u>	<u>23,844</u>	<u>264,042</u>	<u>312,907</u>	<u>112,663</u>	<u>762,161</u>
Total liabilities and fund balance	<u>\$ 77,991</u>	<u>\$ 47,070</u>	<u>\$ 264,267</u>	<u>\$ 413,729</u>	<u>\$ 114,808</u>	<u>\$ 917,865</u>

Farwell Area Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Fund	Capital Projects Fund	Construction Fund	Total Nonmajor Governmental Funds
	Food Service	Athletics	2005 Issue			
Revenues						
Local sources	\$ 178,238	\$ 37,963	\$ 980,411	\$ 1,897	\$ 19,037	\$ 1,217,546
State sources	56,894	-	-	-	-	56,894
Federal sources	472,677	-	-	-	-	472,677
Total revenues	<u>707,809</u>	<u>37,963</u>	<u>980,411</u>	<u>1,897</u>	<u>19,037</u>	<u>1,747,117</u>
Expenditures						
Current						
Education						
Food services	716,630	-	-	-	-	716,630
Athletic activities	-	219,458	-	-	-	219,458
Capital outlay	-	-	-	140,086	796,097	936,183
Debt service						
Principal	-	-	590,000	-	-	590,000
Interest and other expenditures	-	-	406,264	-	-	406,264
Total expenditures	<u>716,630</u>	<u>219,458</u>	<u>996,264</u>	<u>140,086</u>	<u>796,097</u>	<u>2,868,535</u>
Excess (deficiency) of revenues over expenditures	<u>(8,821)</u>	<u>(181,495)</u>	<u>(15,853)</u>	<u>(138,189)</u>	<u>(777,060)</u>	<u>(1,121,418)</u>
Other Financing Sources (Uses)						
Transfers in	2,500	225,000	-	80,000	-	307,500
Transfers out	(27,000)	(20,000)	-	-	-	(47,000)
Total other financing sources (uses)	<u>(24,500)</u>	<u>205,000</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>260,500</u>
Net change in fund balance	(33,321)	23,505	(15,853)	(58,189)	(777,060)	(860,918)
Fund balance - beginning	<u>82,026</u>	<u>339</u>	<u>279,895</u>	<u>371,096</u>	<u>889,723</u>	<u>1,623,079</u>
Fund balance - ending	<u>\$ 48,705</u>	<u>\$ 23,844</u>	<u>\$ 264,042</u>	<u>\$ 312,907</u>	<u>\$ 112,663</u>	<u>\$ 762,161</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Balance Sheet
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 2,741,125	\$ 3,457,927
Taxes receivable	415,105	19,629
Accounts receivable	14,997	93,578
Due from other funds	114,303	7,517
Due from other governmental units	1,482,073	1,385,319
Prepaid items	<u>-</u>	<u>211,618</u>
 Total assets	 <u><u>\$ 4,767,603</u></u>	 <u><u>\$ 5,175,588</u></u>
 Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 234,029	\$ 80,830
State aid anticipation note payable	2,000,000	2,250,000
Due to other funds	286,085	197,389
Due to other governmental units	-	21,610
Payroll deductions and withholdings	5,811	5,622
Accrued expenditures	70,621	262,948
Accrued salaries payable	866,875	868,779
Deferred revenue	<u>188,719</u>	<u>165,781</u>
 Total liabilities	 <u><u>3,652,140</u></u>	 <u><u>3,852,959</u></u>
 Fund Balance		
Reserved for prepaid items	-	211,618
Other undesignated	<u>1,115,463</u>	<u>1,111,011</u>
 Total fund balance	 <u><u>1,115,463</u></u>	 <u><u>1,322,629</u></u>
 Total liabilities and fund balance	 <u><u>\$ 4,767,603</u></u>	 <u><u>\$ 5,175,588</u></u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Revenues
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue from local sources		
Property tax levy	\$ 4,084,210	\$ 3,843,873
Transportation fees	15,577	23,009
Earnings on investments	83,829	114,606
Other local revenues	<u>194,988</u>	<u>63,682</u>
Total revenues from local sources	<u>4,378,604</u>	<u>4,045,170</u>
Revenues from state sources		
Grants - unrestricted	6,786,336	6,846,735
Grants - restricted	<u>927,077</u>	<u>952,855</u>
Total revenues from state sources	<u>7,713,413</u>	<u>7,799,590</u>
Revenues from federal sources		
Grants	<u>489,553</u>	<u>628,736</u>
Other financing sources		
Transfers in	<u>47,000</u>	<u>42,500</u>
Total revenue and other financing sources	<u>\$ 12,628,570</u>	<u>\$ 12,515,996</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Basic program - elementary		
Salaries	\$ 1,611,518	\$ 1,710,725
Employee benefits	822,584	850,559
Purchased services	39,369	36,738
Supplies and materials	79,294	79,692
Total elementary	<u>2,552,765</u>	<u>2,677,714</u>
Basic program - middle school		
Salaries	1,151,317	1,092,776
Employee benefits	551,165	543,166
Purchased services	28,054	25,118
Supplies and materials	88,541	62,345
Total middle school	<u>1,819,077</u>	<u>1,723,405</u>
Basic program - high school		
Salaries	1,186,300	1,188,683
Employee benefits	595,826	570,293
Purchased services	69,952	65,664
Supplies and materials	102,072	63,979
Other	89,354	-
Total high school	<u>2,043,504</u>	<u>1,888,619</u>
Added needs - special education		
Salaries	587,043	712,673
Employee benefits	284,933	190,662
Purchased services	22,064	25,513
Supplies and materials	10,263	8,582
Total special education	<u>904,303</u>	<u>937,430</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Added needs - compensatory education		
Salaries	506,304	582,728
Employee benefits	200,345	248,059
Supplies and materials	41,357	4,482
Total compensatory education	<u>748,006</u>	<u>835,269</u>
Added needs - career and technical education		
Purchased services	73,500	51,470
Supplies and materials	7,231	10,116
Total career and technical education	<u>80,731</u>	<u>61,586</u>
Pupil - truancy/absenteeism services		
Purchased services	<u>444</u>	<u>-</u>
Pupil - guidance services		
Salaries	74,091	67,119
Employee benefits	32,870	40,485
Purchased services	121	215
Total guidance services	<u>107,082</u>	<u>107,819</u>
Pupil - health services		
Salaries	-	1,820
Employee benefits	-	139
Purchased services	3,441	1,403
Supplies and materials	507	318
Total health services	<u>3,948</u>	<u>3,680</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Pupil - speech services		
Salaries	15,036	13,950
Employee benefits	<u>3,707</u>	<u>3,534</u>
Total speech services	<u>18,743</u>	<u>17,484</u>
 Instructional staff - improvement of education		
Salaries	1,003	5,485
Employee benefits	246	1,217
Purchased services	<u>12,207</u>	<u>1,632</u>
Total improvement of education	<u>13,456</u>	<u>8,334</u>
 Instructional staff - educational media services		
Salaries	46,592	36,546
Employee benefits	22,062	17,059
Purchased services	8,332	8,131
Supplies and materials	<u>109,815</u>	<u>10,749</u>
Total educational media services	<u>186,801</u>	<u>72,485</u>
 Instructional staff - supervision and direction of instructional staff		
Salaries	9,000	-
Employee benefits	<u>2,194</u>	<u>-</u>
Total supervision and direction of instructional staff	<u>11,194</u>	<u>-</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
General administration - board of education		
Purchased services	35,316	25,548
Supplies and materials	3,727	1,200
Other	4,481	14,573
Total board of education	<u>43,524</u>	<u>41,321</u>
General administration - executive administration		
Salaries	143,827	132,460
Employee benefits	67,683	65,123
Purchased services	3,465	5,599
Supplies and materials	2,731	2,893
Other	3,717	1,768
Total executive administration	<u>221,423</u>	<u>207,843</u>
School administration - office of the principal		
Salaries	546,007	509,912
Employee benefits	209,486	237,091
Purchased services	4,177	4,994
Supplies and materials	1,851	886
Other	3,058	1,678
Total office of the principal	<u>764,579</u>	<u>754,561</u>
Business - fiscal services		
Salaries	102,127	96,834
Employee benefits	46,676	45,509
Purchased services	29,593	27,934
Supplies and materials	3,174	1,143
Other	12,542	144
Total fiscal services	<u>194,112</u>	<u>171,564</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Business - other		
Purchased services	57,769	66,565
Other	<u>111,208</u>	<u>137,087</u>
Total other business	<u>168,977</u>	<u>203,652</u>
Operations and maintenance - operating building services		
Salaries	349,096	332,622
Employee benefits	216,319	225,847
Purchased services	231,707	191,179
Supplies and materials	339,149	326,372
Other	<u>89</u>	<u>100</u>
Total operating building services	<u>1,136,360</u>	<u>1,076,120</u>
Pupil transportation services		
Salaries	445,654	404,763
Employee benefits	161,715	150,310
Purchased services	18,939	13,862
Supplies and materials	177,106	120,284
Other	<u>2,813</u>	<u>4,037</u>
Total transportation services	<u>806,227</u>	<u>693,256</u>
Central - support services technology		
Salaries	61,033	54,347
Employee benefits	23,291	21,099
Purchased services	<u>47,334</u>	<u>71,911</u>
Total support services technology	<u>131,658</u>	<u>147,357</u>

Farwell Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Community services - direction		
Salaries	11,280	11,280
Employee benefits	3,264	2,727
Purchased services	2,250	2,250
Supplies and materials	<u>335</u>	<u>552</u>
Total direction	<u>17,129</u>	<u>16,809</u>
Intergovernmental payments		
Payments to other public schools	160,260	163,750
Payments to sub recipients	<u>122,400</u>	<u>118,800</u>
Total intergovernmental payments	<u>282,660</u>	<u>282,550</u>
Capital outlay		
Basic program - elementary	3,319	2,742
Basic program - middle school	13,081	4,994
Basic program - high school	3,891	3,317
Business - fiscal services	9,492	13,015
Operations and maintenance - operating building services	19,593	28,959
Pupil transportation services	136,838	1,039
Central - support services technology	<u>85,319</u>	<u>80,719</u>
Total capital outlay	<u>271,533</u>	<u>134,785</u>
Other financing uses		
Transfers out	<u>307,500</u>	<u>352,500</u>
Total expenditures and financing uses	<u><u>\$ 12,835,736</u></u>	<u><u>\$ 12,416,143</u></u>

Farwell Area Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2008

	Due to (From) Student Groups July 1, 2007	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2008
Elementary K - 2 Awards	\$ 3,028	\$ 2,805	\$ 1,360	\$ 4,473
Auction	100	-	20	80
Elementary 3 - 4 Awards	4,807	29,332	27,445	6,694
Alternative Education Pop	454	2,731	2,078	1,107
Middle School Awards	810	9,512	9,518	804
High School Awards	779	9,423	9,216	986
High School Concessions Pop	505	26,441	26,175	771
High School Concessions Candy	944	7,076	7,605	415
Art Club	114	-	-	114
Art Fees	40	-	-	40
Academic Track	179	-	-	179
Band Camp	137	300	99	338
Band Fees	363	-	146	217
Community Caring Fund	1,928	20	143	1,805
Book Fair - Elementary School	10,601	5,089	3,921	11,769
Book Fair - Middle School	10	1,975	1,974	11
Cheerleaders	-	10,343	9,861	482
Choir	237	6,558	6,750	45
Class of 1996	100	-	-	100
Class of 1997	141	-	-	141
Class of 1998	843	-	843	-
Class of 2000	888	-	-	888
Class of 2001	620	-	-	620
Class of 2002	116	-	-	116
Class of 2004	63	-	-	63
Class of 2005	114	-	-	114
Class of 2007	216	-	-	216
Class of 2008	718	613	513	818
Class of 2009	2,771	5,692	5,393	3,070
Class of 2010	1,017	1,882	886	2,013
Class of 2011	291	3,851	2,358	1,784
Class of 2012	-	12,835	12,693	142

Farwell Area Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2008

	Due to (From) Student Groups July 1, 2007	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2008
Dance Club	36	5,987	5,706	317
Elementary Music	893	1,091	1,182	802
Elementary Playground	8,604	-	71	8,533
Elementary Pop Account	3,226	321	63	3,484
Elementary School Store	-	7,500	3,780	3,720
Elementary Student Assistance	906	8,989	3,056	6,839
Family Living	184	-	184	-
Fifth Grade	3,247	4,573	7,524	296
Fellowship Christian	2	-	-	2
Foreign Language Club	549	9,806	10,001	354
High School Basketball - Girls	20	5,865	3,326	2,559
Girls Golf	411	538	698	251
Golf Team	457	2,185	1,030	1,612
Gunnerson Scholarship	420	-	-	420
High School Basketball - Boys	72	1,907	1,230	749
Homerun Club	-	875	547	328
High School Computer Lab	245	-	-	245
High School Economics	42	-	-	42
High School Library Fees	382	119	50	451
High School Student Council	1,173	4,420	3,925	1,668
Leadership Connections	390	-	-	390
Manufacturing Class	92	-	-	92
Middle School Art	47	-	-	47
Middle School Basketball - Boys	119	1,940	1,403	656
Middle School Counseling	685	44	252	477
Middle School Library Fees	519	1,193	1,569	143
Middle School Student Council	1,167	1,435	1,238	1,364
Middle School Yearbook	612	2,328	2,940	-
Middle School Playground	216	-	-	216
Middle School Software & Hardware	261	-	249	12
Miscellaneous	7,972	19,462	25,193	2,241
National Honor Society	3,682	12,159	10,718	5,123

Farwell Area Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2008

	Due to (From) Student Groups July 1, 2007	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2008
Nature Center	646	-	19	627
Newspaper - High school	49	-	-	49
Pom Pon Club	106	-	-	106
Recreational Acct.	741	-	-	741
Retirement	63	-	-	63
Revolving	1,040	4,916	1,369	4,587
R.I.F.	1,228	922	2,041	109
Soccer	141	-	-	141
Science 7th Grade	1,412	1,756	1,406	1,762
Sixth Grade	1,545	6,530	6,782	1,293
Seventh Grade	-	9,653	9,528	125
Seventh Grade - Cheerleading	331	-	-	331
Sports Program	467	-	-	467
Softball	603	1,484	2,087	-
Skiing	60	-	-	60
Stitt. - Krell Trip	36	-	-	36
Target Grant	64	-	64	-
T.A.A.D.	81	-	-	81
Teen Summit	193	-	-	193
Thespians	-	-	-	-
Touchdown Club	1,010	11,433	10,600	1,843
Track	125	-	-	125
Varsity Volleyball	175	4,200	1,902	2,473
X-Country	-	700	311	389
Yearbook - B. Chapo	1,447	12,904	11,782	2,569
Rental house - Superior St.	18,191	6,388	5,440	19,139
Total	\$ 99,319	\$ 290,101	\$ 268,263	\$ 121,157



6018 Eastman Avenue
Midland, MI 48640
(989) 631-6060 / (800) 701-3574
Fax (989) 631-4288

August 14, 2008

To the Board of Education
Farwell Area Schools
Farwell, Michigan

Dear Board members:

We have completed our audit of the financial statements of Farwell Area Schools as of and for the year ended June 30, 2008 and have issued our report dated August 14, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Midland, Michigan
August 14, 2008

Appendix I
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

No difficulties were encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Attachment A

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in that report to ensure you are aware of relevant information.

Appendix II

Management Comments

In planning and performing our audit of the financial statements of Farwell Area Schools as of and for the year ended June 30, 2008, we considered Farwell Area Schools internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report date August 14, 2008, on the financial statements of Farwell Area Schools. Our comments and recommendations regarding those matters are:

CASH POOL ACCOUNT

Currently the District maintains a separate bank account (s) for each fund. This adds significant time during monthly reconciliation process as each account has to be reconciled. It also makes recording of activity between funds more time consuming.

Recommendation

We recommend to set-up cash pool account in the accounting system. This will greatly streamline and reduce time during the monthly reconciliation process as there only will be one account, which will have to be reconciled. It will also streamline recording of activity among all funds as no checks will have to be written out of numerous bank accounts or out one fund to reimburse the other fund. Individual cash balances will still be maintained for each fund in the accounting software.